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MBFR-EC: Bonn's efforts to bring defense questions before the European Community made some notable progress last week when French officials agreed to participate in a discussion of European force reductions in that forum. The EC Political Committee at its meeting on February 6-7 established an expert working group to meet in early March to begin such discussions.

The main task will be to examine in detail the implications of the MBFR negotiations for European integration, especially in the area of defense cooperation. The working group's mandate, however, is broadly worded to include any relevant international negotiations or agreements. In endorsing the working group, the French may intend to raise issues related to SALT and the US-Soviet agreement on the prevention of nuclear war. Paris has repeatedly argued that both imply a weaker US commitment to the defense of Western Europe.

The greatest obstacles confronting Bonn in its efforts to establish the working group have been the reluctance of several EC member states to debate defense questions in the EC and their strong opposition to MBFR. West German officials concede that the French, and perhaps the British, might use the new EC forum to speak out against the force reductions talks in the hope of slowing their progress.

The Western participants at the negotiations in Vienna hope to postpone consideration of West European force reductions until a second phase of the talks. Nevertheless, West German officials maintain that the time is ripe for the EC, as well as NATO, to reach a consensus on the nature and scope of reductions compatible with Western Europe's security. In Bonn's view, the working group will serve this purpose as well as force Paris to reveal its views more fully on issues related to MBFR.

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LIBYA: Tripoli's nationalization yesterday of the holdings of three US oil companies--Texaco, Standard Oil (California), and Arco--was timed to demonstrate Colonel Qadhafi's displeasure with the Washington energy conference and suggests Libya will take a hard line at Thursday's OAPEC meeting to discuss the Arab oil embargo.

This most recent action appears to end a game of cat-and-mouse with these firms that began with the Libyan announcement on September 1, 1973 that the government was expropriating 51 percent of oil company holdings. Some foreign firms--such as Occidental, Continental, and Marathon--went along with the earlier government action; but others, including those covered by yesterday's measure, Mobil, Shell, and Exxon, resisted in the full expectation that they would ultimately be nationalized anyway.

Amoseas--the partnership through which Texaco and Standard operated--held facilities producing about 110,000 barrels per day in December, or some 5 percent of Libyan output. Arco was responsible for only about 20,000 barrels per day. In all three cases, the Libyan share was only a small portion of total company output worldwide.

The Libyans should have little difficulty running the nationalized operations with expatriates. Despite attempts by the companies to block sales through legal actions, the government should also be able to move the high-quality oil in the current tight market.

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<u>NORTH KOREA</u>: The turnout of the North Korean Communist Party leadership on February 8 for Army Day disproves rumors of high-level purges, but some changes in the party hierarchy over the past several months are apparent.

In the most significant shift, Vice Premier Pak Song-chol appears to have slipped from fifth to seventh place in the Politburo. His demotion may stem from his role as Pyongyang's principal negotiator in the North-South talks. So far the talks have not produced favorable results for North Korea.

Defense Minister Choe Hyon and Chief of Staff O Chin-u moved above the Vice Premier, suggesting the increased importance of the military in the party hierarchy--a point made by Kim Il-sung in his New Year's address. Colonel General Han Ik-sŭ, former director general of the army's General Political Bureau, moved from 12th to 11th in the Politburo ranking and Han's replacement, Lieutenant General Yi Yong-mu, was listed for the first time as a member of the Politburo, which apparently has now been expanded.

Other new candidate members of the Politburo are Foreign Minister Ho Tam, State Planning Chief Hong Song-nam, and Supreme People's Assembly Standing Committee member Chong-chun-ki, all of whom were named vice premiers last November.

The promotion of these senior government officials appears to be a further indication of Kim Il-sung's resolve to integrate state and party more closely--a development initially signaled in December 1972 when the government was reorganized and the present constitution adopted.

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<u>FRANCE</u>: The French Navy has announced plans to build a 15 to 20 thousand ton nuclear-powered helicopter carrier. Construction is scheduled to begin in 1975, and the navy hopes to have the ship operational by 1980.

This ship reportedly will be configured to handle both antisubmarine helicopters and assault helicopters. The French have been planning for some time to build a helicopter carrier, but the navy's announcement is the first indication that it will use nuclear propulsion. When completed, the carrier will be the first nuclear-powered surface warship in any West European navy.

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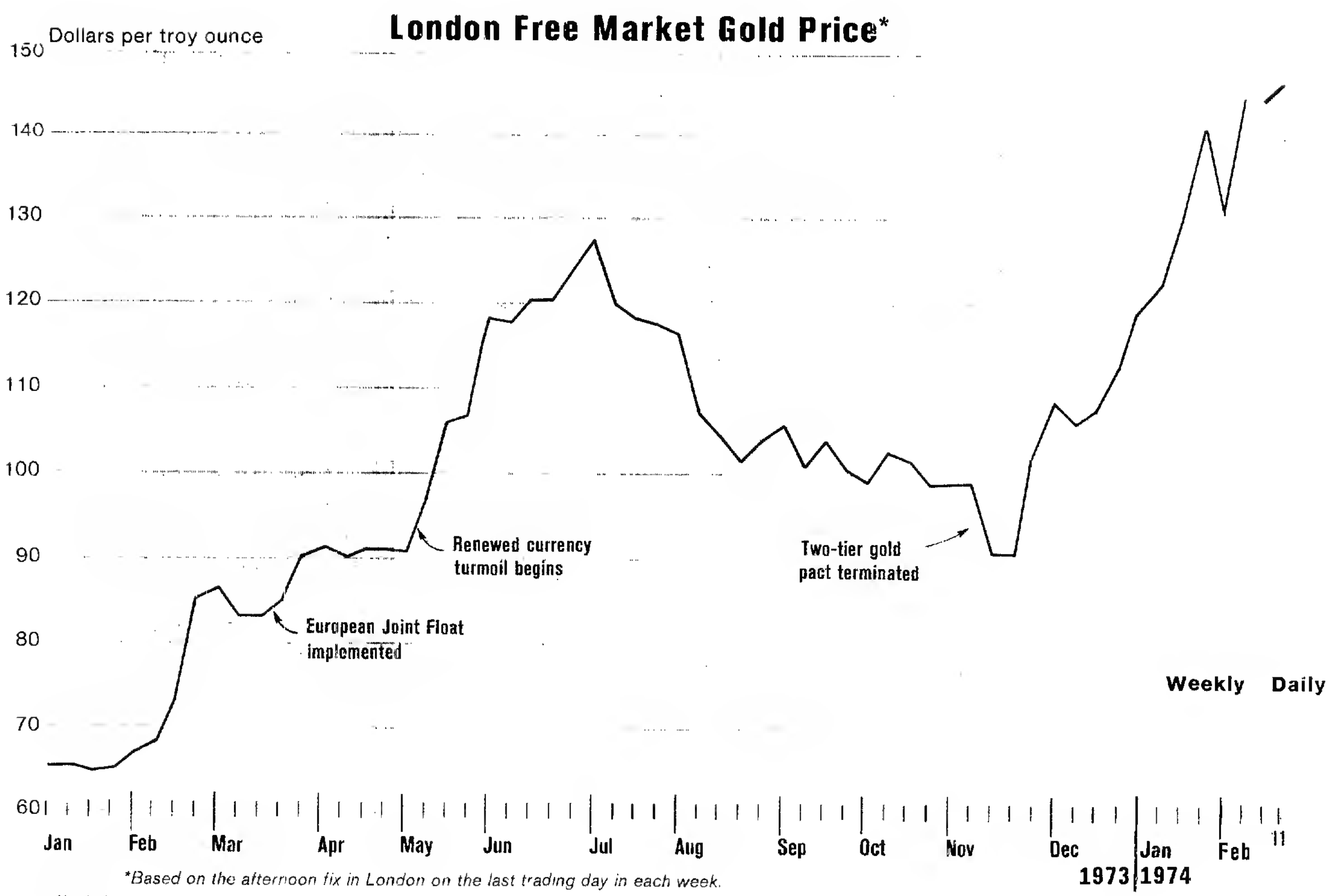

*Based on the afternoon fix in London on the last trading day in each week.

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GOLD MARKET: The price of gold in London reached another new high yesterday, closing at $145 an ounce.

The increase reflects trade reaction to French Finance Minister Giscard d'Estaing's statement that the EC may resume discussions on official debt settlement in gold at a "market-related price." Continued fears of widespread international inflation, caused in part by European labor problems, also stimulated the rise.

The price of gold rose last month despite the apparent resumption of Soviet sales. [redacted] South Africa continued to sell gold from reserves as well as from current production. [redacted]

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<u>NORTH YEMEN</u>: President Iryani's ouster of pro-Saudi Prime Minister Hajri on February 10 is likely to lead to a period of intense political maneuvering in Sana and possibly a harsh reaction from Riyadh.

Deputy Prime Minister Makki will head a caretaker government while Iryani makes yet another attempt to overcome the objections of Saudi Arabia, North Yemen's major financial benefactor, to bringing back former prime minister al-Ayni. Iryani, however, probably will be forced to settle on a less controversial figure.

Iryani, during his official visit to Riyadh next week, will try to convince King Faysal that a government in Sana headed by al-Ayni would pose no threat to Saudi interests. Faysal, however, is unlikely to be persuaded. [redacted]

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Faysal no doubt is unhappy about the dismissal of Hajri, Saudi Arabia's voice in Sana, who nonetheless remains a member of the three-man ruling Republican Council. For the moment, however, the Saudis will probably confine themselves to observing the political scene in Sana while they consider a possible response.

For his part, Iryani, in moving against Hajri, wanted to demonstrate a measure of independence from the Saudis as well as to placate ministers who resented Hajri's "medieval" style of governing. Perhaps more important, Iryani acted to remove an obstacle to reducing tensions with the South Yemenis who regard Hajri as a reactionary Saudi agent. [redacted]

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BRAZIL: Higher petroleum prices have forced Brasilia to abandon the requirement that 40 percent of all financial credits obtained abroad must be deposited in non-interest bearing accounts with the Central Bank. This requirement was imposed last August in an effort to restrain the rapid growth of foreign reserves that added to Brazil's inflationary pressures. Foreign financial loans practically dried up following imposition of the deposit requirement and foreign reserves remained virtually unchanged at about $6.4 billion for several months. Now, however, higher costs of imported oil are widening Brazil's trade deficit--expected to exceed $1 billion this year, compared with a moderate surplus in 1973--and foreign reserves have begun to decline. 25X1

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FOR THE RECORD

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[redacted]

Argentina: President Peron appears to have backed away from his plans for a trip to Madrid later this month because rumors and speculation about his health and the political situation began to get out of hand. The uncertainties and concern caused the Buenos Aires stock market to drop and prompted several newspapers and congressmen to suggest that he remain in the country. With terrorism on the rise and the prospect of open warfare between Peronists in the right and left wings of the movement, Argentines clearly would prefer to have Peron at the helm. [redacted]

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Yugoslavia-Hungary: President Tito will visit Hungary "within the next few days," according to the Yugoslav press agency. He may be present for the signing of an agreement to build an oil pipeline that will carry Middle Eastern oil from a Yugoslav port. The trip will take place either before or after February 13-15, when Tito will host Mexican President Echeverria in Belgrade. [redacted] 25X1

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